The Commonwealth of Massachusetts

DEPARTMENT OF
TELECOMMUNICATIONS AND ENERGY

November 1, 2005

D.T.E. 05-GAF-P1
Petition of Bay State Gas Company for review and approval by the Department of Telecommunications and Energy of the company's 2005/2006 Peak Cost of Gas Adjustment Clause filing.

D.T.E. 05-GAF-P2
Petition of The Berkshire Gas Company for review and approval by the Department of Telecommunications and Energy of the company's 2005/2006 Peak Cost of Gas Adjustment Clause filing.

D.T.E. 05-GAF-P3
Petition of Blackstone Gas Company for review and approval by the Department of Telecommunications and Energy of the company's 2005/2006 Peak Cost of Gas Adjustment Clause filing.

D.T.E. 05-GAF-P4
Petition of Fitchburg Gas and Electric Company for review and approval by the Department of Telecommunications and Energy of the company's 2005/2006 Peak Cost of Gas Adjustment Clause filing.

D.T.E. 05-GAF-P5
Petition of KeySpan Energy Delivery New England for review and approval by the Department of Telecommunications and Energy of the company's 2005/2006 Peak Cost of Gas Adjustment Clause filing.

D.T.E. 05-GAF-P6
Petition of New England Gas Company, Fall River Service Area, for review and approval by the Department of Telecommunications and Energy of the company's 2005/2006 Peak Cost of Gas Adjustment Clause filing.

D.T.E. 05-GAF-P7
Petition of New England Gas Company, North Attleboro Service Area, for review and approval by the Department of Telecommunications and Energy of the company's 2005/2006 Peak Cost of Gas Adjustment Clause filing.

D.T.E. 05-GAF-P1, P2, P3, P4, P5, P6, P7, P8

D.T.E. 05-GAF-P8
Petition of NSTAR Gas Company for review and approval by the Department of Telecommunications and Energy of the company's 2005/2006 Peak Cost of Gas Adjustment Clause filing.

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I. Introduction

In September of 2005, local gas distribution companies ("LDCs") filed with the Department of Telecommunications and Energy ("Department") Peak Period Gas Adjustment Factors ("GAFs")[1] and Local Distribution Adjustment Factors ("LDAFs") for effect during the period from November 1, 2005, through April 30, 2006. LDCs conducting business in Massachusetts are required to file GAFs and, where applicable, LDAFs, with the Department on a semi-annual basis. GAFs and LDAFs are used by the LDCs to reconcile projected costs of commodity and capacity against actual costs in accordance with the Cost of Gas Adjustment Clause ("CGAC") at 220 C.M.R. §§ 6.00, et seq.

The proposed GAFs and LDAFs represent an increase over last winter's Peak Period primarily as a result of substantial increases in natural gas commodity prices. In addition, as prices continued to rise prior to the November 1, 2005 Peak Period, several LDCs submitted revised GAFs and LDAFs to reflect these additional increases.

The Department conducted a detailed review and investigation of each filing to determine whether the LDC met its burden to appropriately document the calculations pursuant to 220 C.M.R. §§ 6.00 et seq. Moreover, the Department held fourteen hearings throughout the Commonwealth to listen to the views and concerns of the public and elected officials and to provide them with the opportunity to understand the reasons for the requested increases by the

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1 The GAF is stated in cents per therm or hundred cubic feet ("Ccf") of gas. A therm or Ccf is 100,000 Btu (about 0.71 gallons of heating oil). A typical residential customer (heat, cooking, hot water) would use 150 therms in a "normal" January or February.

LDCs as well as to provide a forum for the distribution of customer information on ways for customers to manage their winter heating costs.[2]

II. Description of a Gas Bill

Before discussing the GAF filings themselves, we describe the components of a consumer's gas bill. The total price paid for natural gas by Massachusetts consumers depends on: (1) the price of the gas commodity itself; (2) the cost of storing and transporting the gas from production areas to the LDCs' service areas (interstate transportation); and (3) the cost of distributing that gas (via the local distribution system) to the customers.

A gas bill has two components: (1) a gas supply component, containing gas commodity and interstate transportation costs (i.e., the cost of gas itself and the cost of transporting it from Texas, Louisiana, or Canada to the LDC); and (2) a base rate component, designed to recover all distribution-related costs, including plant and equipment, labor, taxes, interest on borrowed money, return on investment, billing, metering, and customer service (i.e., the cost to operate the LDC).

It is important to differentiate the components of the bill that are regulated by the Department. The Department does not regulate the interstate price of the gas commodity. Rather, the gas commodity price is determined by market forces, based on supply and demand. From 1954 into the late 1970s, the federal government controlled the wellhead price of natural

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[2] The Department held hearings as follows: Blackstone and Lynn on October 17, 2005; Chelsea and North Attleboro on October 18, 2005; Lowell on October 19, 2005; Hyannis on October 20, 2005; New Bedford and Springfield on October 24, 2005; Lawrence on October 25, 2005; Fall River, Fitchburg, and Pittsfield on October 26, 2005; and Brockton and Haverhill on October 27, 2005.

gas charged by producers. Federal price controls kept wellhead prices low, which also artificially depressed production to such an extent that a national system of customer service curtailments had to be implemented to manage chronic shortages. During the Carter Administration, Congress responded to the natural gas shortages by enacting legislation that led to an increase in the flow of gas into the interstate market. Passage of the Natural Gas Policy Act ("NGPA") of 1978 effectively terminated federal control over the wellhead price of "new" gas as of January 1, 1985, but maintained (for a time) wellhead price controls for older, "vintage" gas. The purpose of the NGPA was to encourage and permit a competitive wellhead market where market forces would determine the supply, demand and ultimately the price of natural gas.

In 1989, Congress lifted all remaining wellhead price controls on natural gas with the passage of the Natural Gas Wellhead Decontrol Act. The result was an increasing abundance of supply and consequent drop in the price of natural gas throughout the 1980s and well into the 1990s. From 1985 to 1999, gas prices fell by 30 percent in real terms. Today, there are no remaining federally-mandated wellhead prices. In terms of pricing, natural gas is merely goods in trade, just like grain, oil, coffee, or any other fungible commodity. Natural gas commodity prices are determined in the marketplace. Factors affecting gas prices include the weather, overall gas demand, supply of gas, and the prices of competing fuels such as oil and coal.

Costs incurred by the LDCs for the purchase, storage, and interstate transportation of gas (referred to as gas supply costs) are recovered via the CGAC on a dollar-for-dollar basis.

See 220 C.M.R. §§ 6.00. That is, LDCs do not profit on the gas commodity component of a gas bill, and the cost of gas is a straight pass-through. LDCs earn a rate of return solely and entirely on their investment in local distribution facilities, i.e., the second component of the gas bill.

Gas supply costs are fully reconciled. Each September 15th, every LDC files a reconciliation accounting of its prior year's costs, stating actual costs incurred to procure gas and comparing costs to what was charged to customers under the previous gas year's GAF. Each LDC proposes, for Department review and approval, either supplemental recovery from customers for the LDC's under-recovery of gas costs or a credit to customers for the LDC's over-recovery of gas costs (both with interest). The Department investigates the Companies' accounting to ensure that the reconciliation leads to the recovery of only the gas supply costs actually incurred.

III. Deferrals vs. Bill Impacts

In assessing the LDCs' current GAF filings, the Department is faced with the difficult task of balancing (a) cost recovery at rates that may challenge our goal of rate continuity,[3] against (b) the potentially greater harm of increasing deferrals to be recovered in the future (i.e., Summer of 2006, or Winter of 2006/2007) with interest. Deferral of recovery of excessive amounts to the next summer or heating season could create serious additional

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3 Continuity "means that rate structure changes should be made in a predictable and gradual manner which allows consumers reasonable time to adjust their consumption patterns in response to a change in structure." Cambridge Electric Light Company, D.P.U. 87-221-A at 7-8 (1988). The CGAC operates outside the structure of base rates; but even so, its costs affect the total bill.

problems and is ill advised. Deferral will impose otherwise avoidable interest charges on customers and may jeopardize a company's ability to serve customers by impairing the LDC's credit rating and access to borrowing. In addition -- and this is worrisome to anyone knowledgeable in gas regulation -- deferral of significant amounts runs the risk that large users of gas (e.g., commercial and industrial users) may obtain their gas commodity next heating season directly from marketers, rather than from their LDC, solely on the basis of avoiding deferred costs. By going to marketers, large commercial and industrial customers could avoid next year's CGAC and leave behind costs that they actually incurred this year to be paid next year by captive, smaller customers, typically residential or small commercial users. Given that such a scenario is inequitable, the Department rejects deferring CGAC recovery.

The total amount of costs deferred for future recovery could well grow to a level that would threaten the financial viability of the LDCs and with it, their ability to serve their customers. A gas company has a statutory obligation to serve its customers in an efficient and cost-effective manner. See G.L. c. 164, § 69I. Where it does so, a gas company is entitled to an opportunity to recover its legitimately-incurred gas costs. 220 C.M.R. §§ 6.00 et seq. Imposing an obligation to serve but denying the opportunity to recover legitimate costs incident to meeting that obligation is confiscatory and unconstitutional. It would invite - perhaps even court - appellate reversal.

Nonetheless, the Department is mindful of the effect these increases will have on ratepayers, especially low-income customers. The question is whether customers should pay now for costs legitimately incurred to serve them or whether deferral of recovery of gas costs to a later date is the better course. First, if the Department were to direct LDCs to defer any amount of the total projected gas cost for recovery in a future period, customers would be required to pay the deferred amount at the later date with the addition of interest at the then-current prime rate. In other words, the interest on the deferred amount increases total gas costs to consumers. In essence, the Department would be requiring customers to borrow from the LDC and pay back that borrowed amount with interest at a later date.

In addition, if today's increased costs are postponed and recovered through a future reconciliation adjustment, LDC customers will be paying some of this year's increased gas costs, plus the interest charges mentioned above, on top of their cost for the gas commodity for next year.

Furthermore, equity requires us to ensure that customers on whose behalf costs are incurred are the same customers who pay these costs. A deferral would create an artificial incentive that may cause customers (e.g., large commercial or industrial customers) to migrate to marketers and thereby avoid payment of costs incurred on their behalf, leaving behind their bills to be paid by others. No one (e.g., large commercial or industrial customers) should be allowed to run up a large bill and leave it for others to pay.

Given that any deferrals would result in customers ultimately paying more for their gas costs, would lead to increased payments required in future periods, and would result in some customers subsidizing the costs for those customers who left the system, the Department finds it is not appropriate to defer recovery of gas costs at this time.

IV. Consumer Initiatives

There are several programs that the Department is urging consumers to consider that could lessen the effect of commodity GAF increases on consumers this winter. These programs include, but are not limited to, level billing plans, payment plans, and energy conservation.[4] The Department notes that a customer participating in a budget billing plan will receive the same benefit of deferrals without the increased impact of paying interest on deferrals imposed by the Department.[5] To ensure that each consumer is able to take advantage of company billing programs, the Department encourages the Companies to immediately make available to all customers, the Companies' level billing plans, whether or not customers are currently enrolled in such a program.

In addition, the Department recommends that LDCs: (1) extend the suspension for service shut-offs from March 15, 2006 to May 1, 2006 (see 220 C.M.R. § 25.03); (2) inform their customers of the applicable deadlines and procedures to apply for federal fuel assistance funds; and (3) encourage all customers to utilize energy conservation programs offered by the LDCs.

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4 On November 30, 2000, the Department adopted an emergency regulation revising the definition of "financial hardship" contained in the Department's billing and termination procedures, 220 C.M.R. §§ 25.00 et seq., D.T.E. 00-89-A. The definition was expanded to include all persons eligible for state fuel-assistance funds from the Low-Income Home Energy Assistance Program.

5 We recommend that each LDC review all level billing arrangements currently in place and, where appropriate, notify customers of the value, if any, of updating the terms to reflect the most recent GAF.

Furthermore, the Department will review with each LDC the feasibility of including on each customer's bill a statement that provides the following information: (a) the reason for the increase in the GAF; (b) that recovery of gas costs is accomplished on a straight pass-through basis; and (c) that residential customers are encouraged to take advantage of budget billing. The Companies are requested to inform the Department by November 15, 2005, of all measures taken to affirmatively inform their customers of these requirements and to accommodate customer requests to avail themselves of these programs.

Upon issuance of this Order, the Department will review each LDC's current policy with respect to the above-recommended actions. Following that review, the Department may direct each LDC to take specific actions to ensure that consumers are appropriately assisted during the winter season.

V. Future Actions

To further mitigate the effect of these increased gas prices, the Department will open an investigation to develop standards that shall apply to each Massachusetts gas company's arrearage management program. Furthermore, the Department will open an inquiry to determine the appropriateness of implementing an emergency regulation regarding expansion of the eligibility requirements for the low-income discount rates from the present standard of 175 percent of the federal poverty level based on a household's gross income to 200 percent of the federal poverty level based on a household's gross income. 220 C.M.R. § 14.03(2A).

VI. Specific LDC filings

Each LDC's filing for the peak period beginning November 1, 2005, is set forth in detail below.

A. Bay State Gas Company

On September 16, 2005, Bay State Gas Company filed its Peak Period GAF and LDAFs as listed below:

Rate Class	GAF	LDAF	Total
Res Heat	$1.4907	$0.0205	$1.5112
Res Non Heat	$1.3073	$0.0114	$1.3187
G-40	$1.5210	$0.0265	$1.5475
G-41	$1.5090	$0.0265	$1.5355
G-42/43	$1.4858	$0.0265	$1.5123
G-50	$1.3739	$0.0265	$1.4004
G-51	$1.3495	$0.0265	$1.3760
G-52/53	$1.3430	$0.0265	$1.3695

B. The Berkshire Gas Company

On September 16, 2005, The Berkshire Gas Company ("Berkshire Gas") filed its Peak GAFs of $1.353 per therm for low-load factor customers and $1.111 per therm for high-load factor customers. On that date, Berkshire Gas also filed its LDAF and proposed $0.045 per therm for residential customers and $0.037 per therm for commercial and industrial customers. On October 28, 2005, Berkshire Gas filed a revised LDAF proposing $0.046 per therm for residential customers and $0.038 per therm for commercial and industrial customers. The Department notes that these LDAF's include a Remediation Adjustment Factor of $0.0206 per therm filed on July 29, 2005.

C. Blackstone Gas Company

On September 16, 2005, Blackstone Gas Company ("Blackstone") submitted its Peak Period GAF of $1.3710 per Ccf. On October 14, 2005, Blackstone submitted a revised Peak Period GAF of $1.6010 per Ccf. The Department notes that the calculation of the GAF reflects the 2004 Annual Reconciliation Adjustment of ($86,304). Blackstone did not propose an LDAF for the Peak Period.

D. Fitchburg Gas and Electric Company

On September 16, 2005, Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil") filed its Peak Period GAF of $1.2709 per therm for high-load-factor customers and $1.2920 per therm for low-load-factor customers. On that date, Unitil also filed a proposed LDAF of $0.0233. On October 26, 2005, Unitil submitted a revised LDAF of $0.0249 per therm for all customer classes.

E. KeySpan Energy Delivery New England

On September 16, 2005, KeySpan Energy Delivery New England ("KeySpan") filed a consolidated Peak Period GAF and LDAF filing for Boston Gas Company ("Boston Gas"), Colonial Gas Company (Lowell and Cape Cod Divisions) ("Colonial"), and Essex Gas Company ("Essex"). On October 19, 2005, KeySpan submitted revised Peak Period GAFs and LDAFs, and on October 27, 2005, KeySpan submitted additional revised LDAFs. The GAFs proposed on October 19, 2005, are as follows:

Rate Tariff	Customer Class	GAF
Tariff 101.1- 104.1	Boston Gas - Residential	$1.4068/therm
Tariff 105.1-107.1, 109.1-111.1	Boston Gas - G-40s & G-50s	$1.4068/therm
Tariff 108.1 & 112.1	Boston Gas - G-44 & G-54	$1.2082/therm
Tariff 108.1 & 112.1	Boston Gas - G-44 & G-54	$2.4248/MDCQ therm
Tariff 201-206	Essex - Residential	$1.3793/therm
Tariff 207-213	Essex - C&I	$1.3793/therm
Tariff 301-304	Colonial Lowell - Residential	$1.4384/Ccf
Tariff 305-313	Colonial Lowell - C&I	$1.4384/Ccf
Tariff 401-405	Colonial Cape Cod - Residential	$1.4351/Ccf
Tariff 406-414	Colonial Cape Cod - C&I	$1.4351/Ccf

The Department notes that the GAFs for Boston Gas, Colonial (Lowell Division), Colonial (Cape Cod Division), and Essex include net reconciliation account balances of $54,053,495 (for November 2004 through December 2004), $59,780 (for November 2004 through December 2004), $2,225,174 (for July 2004 through December 2004), and ($631,253) (for July 2004 through December 2004), respectively.

KeySpan's LDAFs as filed on October 27, 2005, are as follows:

Rate Tariff	Customer Class	LDAF
Tariff 101.1- 104.1	Boston Gas - Residential	$.0401/therm
Tariff 105.1-107.1, 109.1-111.1	Boston Gas - G-40s & G-50s	$.0336/therm
Tariff 108.1 & 112.1	Boston Gas - G-44 & G-54	$.0336/therm
Tariff 108.1 & 112.1	Boston Gas - G-44 & G-54	$.0336/MDCQ therm
Tariff 201-206	Essex - Residential	$.0117/therm
Tariff 207-213	Essex - C&I	$.0073/therm
Tariff 301-304	Colonial Lowell - Residential	$.0236/Ccf
Tariff 305-313	Colonial Lowell - C&I	$.0123/Ccf
Tariff 401-405	Colonial Cape Cod - Residential	$.0181/Ccf
Tariff 406-414	Colonial Cape Cod - C&I	$.0071/Ccf

The Department further notes that the calculation of the LDAFs for Boston Gas, Colonial (Lowell Division), Colonial (Cape Cod Division), and Essex include net reconciliation balances for accounts 142 and 175 of $1,469,938 (for May 2004 through December 2004), ($301,413) (for November 2004 through December 2004), $33,980 (for July 2004 through December 2004), and $92,595 (for July 2004 through December 2004), respectively.

F. New England Gas Company

1. Fall River Service Area

On September 16, 2005, New England Gas Company ("New England Gas") submitted its Peak Period GAF and LDAFs for the Fall River Service Area. On October 17, 2005, New England Gas submitted a revised Peak Period GAF, and on October 19, 2005, it submitted a revised LDAF.

New England Gas' proposed Peak Period GAF as filed on October 17, 2005 is $1.6197 per Ccf for both residential and commercial/industrial customers. The Department notes that the calculation of the GAF includes a Reconciliation Adjustment of ($103,551). New England Gas' LDAF as revised on October 19, 2005, is $0.0018 per Ccf for residential non-heating and high annual use commercial/industrial customers, $0.0156 per Ccf for residential heating customers, and $0.0074 per Ccf for low and medium annual use commercial/industrial customers.

2. North Attleboro Service Area

On September 15, 2005, New England Gas submitted its Peak Period GAF and its LDAFs for the North Attleboro Service Area. On October 17, 2005, New England Gas submitted a revised Peak Period GAF of $1.5464 per therm. On October 19, 2005, New England Gas submitted revised LDAFs of $0.0037 for Residential Non-Heating customers, $0.0141 for Residential Heating customers, $0.0072 for Commercial/Small Industrial customers and $0.0037 for Large Industrial customers. The Department notes that these LDAFs include a Remediation Adjustment Factor of $0.0031 per therm filed on August 5, 2005.

G. NSTAR Gas Company

On September 15, 2005, NSTAR Gas Company ("NSTAR") submitted its Peak Period GAF and LDAF for the period November 1, 2005 through April 30, 2006. On October 19, 2005, NSTAR submitted a revised Peak Period GAF of $1.4570 per therm for residential and commercial/industrial customers. On that date, NSTAR also filed a revised LDAF of $0.0118 per therm for Residential classes, $0.0083 per therm for C&I classes and ($0.0019) per therm for the T-1 and G-53 classes. The Department notes that these LDAFs include a Remediation Adjustment Factor of $0.0007 per therm filed on August 1, 2005.

VII. ORDER

Accordingly, after notice, hearings, and consideration, it is

ORDERED: That the Peak Period Gas Adjustment Factors as proposed by Bay State Gas Company, The Berkshire Gas Company, Blackstone Gas Company, Fitchburg Gas and Electric Company, KeySpan Energy Delivery New England, New England Gas Company, and NSTAR Gas Company are APPROVED.

FURTHER ORDERED: That the Local Gas Adjustment Factors as proposed by Bay State Gas Company, The Berkshire Gas Company, Fitchburg Gas and Electric Company, KeySpan Energy Delivery New England, New England Gas Company, and NSTAR Gas Company are APPROVED.

FURTHER ORDERED: That the LDCs comply with all other directives contained herein.

By Order of the Department,

/s/
Paul G. Afonso, Chairman

/s/
James Connelly, Commissioner

/s/
W. Robert Keating, Commissioner

/s/
Judith F. Judson, Commissioner

/s/
Brian Paul Golden, Commissioner

An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.